

socio-economic stability

public and personal security

interethnic relations

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political and institutional stability

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Early Warning Report

KOSOVO

Report #2

September-December 2002



RIINVEST
INSTITUTI PER HULUMTIME ZHVILLIMORE
INSTITUTE FOR DEVELOPMENT RESEARCH

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The views expressed in this publication are those of the authors and do not necessarily represent the views of either UNDP or USAID.

EARLY WARNING SYSTEM – A systematic Approach to Conflict Prevention

The Kosovo Early Warning Reports are a part of the Kosovo Early Warning System Project. UNDP first launched Early Warning Reports in Bulgaria as a conflict prevention tool to promote the decision making process. At present most SEE UNDP Programmes produce Early Warning Reports on a periodic basis.

The Kosovo Early Warning System Project is aimed at building the capacity of local analysts to foresee potential crises, and based on its findings to advise on crisis prevention policies. The Reports are intended to become strategic planning, response, and policy tools for development and peace-building actors in Kosovo by deriving recommendations for preventative measures from trend analysis and monitoring of key sector indicators of fundamental conflict-causing factors.

The Reports are cofunded by USAID and UNDP, and implemented by the Institute for Development Research “Riinvest” and independent Kosovan analysts.

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Your comments and feedback are important for the further development of the Reports. Please forward these to: early.warning.ks@undp.org.

SELECTED INDICATORS

	2001	Jan-Apr 2002	May-Aug 2002	Sep-Dec 2002	Trend
GDP growth (annual)*, %	13		7.4		↗
Inflation rate (annual)*, %	11		6.5		↗
Interest rate (annual), %	14-22	12-18	12-18	-	-
Bank deposits, million of Euros	468	423-381	377-374	390-405	↗
Long-term deposits, million of Euros	126	134-123	117-120	119-1120	↔
Registered unemployment	-	242,428 (February)	248,254 (June)	255,978 (November)	↗
Consumer Price Index, % (Compared to October 2001)		108.1 (May)	106.0 (July)	106.6 (Nov.)	↔
Basic pensions (per month), Euros	-	-	28	28	↔
Political pessimism, % ("Not quite satisfied" or "not satisfied at all" with current political trends)	-	-	70.0	30.0	↗
Economic pessimism, % ("Not quite satisfied" or "not satisfied at all" with current economic trends)	-	-	50.8	56.2	↗
Subjective welfare, % (Economic situation in the family equal or worse than last year)	-	-	72.6	72.3	↗
Welfare optimism, % (Economic situation in the family will be equal or better off next year)	-	-	57.4	33.1	↗
Satisfaction with UNMIK's performance**, %	-	-	27.2	57.8	↗
Satisfaction with SRSG's performance, %	-	-	43.8	67.3	↗
Satisfaction with Government's performance, %	-	-	60.2	69.1	↗
Satisfaction with Assembly's performance, %	-	-	49.6	73.1	↗
Satisfaction with KFOR's performance, %	-	-	69.8	80.2	↗
Return of refugees, number of returnees	1,425	874 (until June)	-	1,698 (until (October)	↗
Personal security, % ("Somewhat safe" or "very safe" while outdoors)			54.3	59.0	↗

* - Projected rates

** - "Somewhat satisfied" or "very satisfied" with the performance of institutions

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LIST OF ACRONYMS AND ABBREVIATIONS

AAK	Alliance for the Future of Kosovo
BPK	Banking and Payment Authority of Kosovo
CFA	Central Fiscal Authority
CIVPOL	Civil Police (UNMIK's Police)
LDK	Democratic League of Kosovo
PDK	Democratic Party of Kosovo
EFC	Economy and Finance Council
EWS	Early Warning System
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
IMF	International Monetary Fund
KEK	Kosovo Energy Corporation
KFOR	Kosovo Forces
KLA	Kosovo Liberation Army
KPC	Kosovo Protection Corps
KPS	Kosovo Police Service
KTA	Kosovo Trust Agency
MEF	Ministry of Economy and Finance
OSCE	Organization for Security and Cooperation in Europe
PISG	Provisional Institutions of Self-Government
PTK	Post & Telecommunication of Kosovo
SRSG	Special Representative of the Secretary General
UNDP	United Nations Development Programme
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Economic and social stability:

From September-December 2002 trends for some macro economic indicators (GDP, inflation, prices) have been relatively favorable. However, unfavorable ratios were recorded between the following macro economic indicators (i) GDP to consumption, (ii) exports to imports, (iii) labor force supply to the employment rate and (iv) Kosovo's consolidated budget to operational budget expenses and capital investments. This situation must be addressed in an efficient manner in order to avoid social or economic tension and to ensure Kosovo's transition to a phase of sustainable economic development.

Much has been achieved in terms of consolidating the system of fiscal administration, revenue collection and the banking system. However the sustainability of such achievements is being challenged by a number of factors including: (i) the growing pressure on the Kosovo budget for an increase in public sector wages, (ii) an increase in the number of people employed in the public service and in public enterprises (iii) the continuation of financial assistance from the budget for public/socially-owned enterprises, (iv) the huge difference between budget revenues collected at customs points and those collected from within Kosovo, (v) the non-efficient implementation of guarantee instruments and (vi) the lack of a stimulating policy for increasing long-term deposits.

Certain factors show no signs of improvement, including: (i) the high level of unemployment (about 49%), (ii) the poverty level (around 50%), (iii) the percentage of the population receiving social benefits - around 7-9% of the overall population, (iv) problems with public services, especially the supply of electricity. According to our opinion poll unemployment is considered to be the biggest problem in Kosovo today.

To date neither UNMIK nor the Kosovo institutions have produced a consistent strategy to tackle these challenges. A strategy setting out long term economic and social policy priorities for Kosovo is urgently needed.

Political and institutional stability:

The political situation has remained stable. The relatively successful municipal elections of October 2002 contributed to this trend. The decision of UNMIK and other relevant factors to eliminate the activity of parallel structures in Kosovo, and to begin with the unification of the town of Mitrovica also played a particularly important role. However, many challenges in terms of political and institutional stability still remain. Some of these challenges include (i) the divergence of opinions between Kosovan political leaders and parties and the international community concerning the issue of final status. Differences relate to when the discussion about final status should begin as well as the degree to which the standards need to be fulfilled before the issue of final status is resolved (ii) the continuation of restrictive interpretations of the Constitutional Framework and of the Security Council

Resolution 1244 by some UNMIK sectors as well as the tendency of the PISG to override their competences as defined the Constitutional Framework (iii) the slowness of the PISG in issuing laws and the limitations imposed on them by the international community (Constitutional Framework and Security Council Resolution 1244) (iv) the non-participation of Serbs in the proceedings of the Assembly of Kosovo and (v) possible disputes about decentralization.

The current ambiguity in relation to governing powers and responsibilities in Kosovo is a major contributor to the challenges noted above. There is therefore a need to analyze the distribution of responsibilities between UNMIK and the Kosovo Government and Assembly so as to determine the most effective and efficient method of government.

Interethnic relations:

Respondents to our opinion poll think that “interethnic relations are still tense, but there has been some improvement of late”. However, the lack of integration of minorities, especially the Serb minority in to Kosovan society as well as the return of refugees and displaced people, remain major impediments to the development of democracy in Kosovo. The biggest problems in relation to this issue are: (i) the insufficient efforts by the Albanian majority to integrate Serbs into society, (ii) the unwillingness of the Serb population to integrate, (iii) the great influence that Belgrade exercises over Serb leaders in Kosovo, (iv) the unwillingness of Albanians to accept returnees, especially in villages and in those parts that have suffered most during the conflict, (v) the existence of parallel systems in Serb enclaves and the difficulties Serbs have with access to Kosovo systems of education and healthcare, mainly due to the lack of free movement in the whole of the territory of Kosovo and (vi) the neglect of the problems of non-Serb minority communities. It is understood that a more intensive approach to the return of refugees and displaced persons is planned during 2003. In light of this, respective authorities should make efforts to address the above mentioned problems, in order to ensure the successful return of Internally Displaced People.

Public and personal security:

Public and personal security statistics and perceptions about security have continued to improve. There has been a considerable decrease in the numbers of serious crimes committed. However, the situation cannot be considered entirely satisfactory given that there has been an increase in the number of assaults (including assaults on KFOR and KPS members) and cases of arson, and that a number of terrorist attacks against individuals have been recorded of late. Our opinion poll shows that citizens still feel unsafe when at home or outdoors. Other issues that have a negative impact on public and personal security, and need to be properly addressed, are: (i) dissatisfaction with the work of the judiciary (ii) the trend of illegal possession and the carrying of weapons, (iii) the still unsatisfactory level of cooperation of citizens with the police (iv) the lack of apparent success in the fight against organized crime (v) the current level of corruption and (vi) the failure to issue Kosovo’s own criminal legislation.

Of special concern for public security are the terrorist acts that happened during the last two months of 2002. Therefore, it is necessary to pay more attention to the investigation of these crimes and prosecution of their perpetrators. In order to facilitate this, the police and investigative bodies have to be properly equipped and professionally trained.

ECONOMIC AND SOCIAL STABILITY

Economic stability - the challenges

1. Based on available data for the period January-September 2002, as well as on projections for the whole of 2002, it can be concluded that some macroeconomic indicators show relatively favorable trends:

(i) It is estimated that by the end of 2002, GDP in Kosovo will reach about €2 billion. This represents an annual increase in GDP of about 7.4% in real terms. Per Capita GDP increased from \$941 (in 2001) to \$1,051 (in 2002)¹, or 11.7% (see Table 1.1). This relatively high growth in GDP is expected to be accompanied by an inflation rate of 6.5%², a high consumption level (€2.7 billion) and a trade balance deficit of €1.7 billion.

(ii) Another positive trend is represented by the decrease in the Consumer Price Index (CPI), which has dropped from 108.1% (in May) to 106.0% in July, and to 105.4% in August 2002 (Fig.1.1). In November 2002 the CPI marked a slight increase. Market conditions are not yet stable, especially in relation to agricultural food products, which represent the most important part of the consumer basket.

Table 1.1. Macroeconomic indicators (values are given in million of Euros)

Indicators	2001	2002	2002/2001
GDP	1,747	1,990	113,9%
Per capita GDP (in Euros)	941	1,051	111,7%
Consumption	2,550	2,742	107,5%
Family consumption	1,722	1,934	112,3%
Imports	659,8	432,1*	-
Exports	10,6	14,2*	-
GNP	2,434	2,648	108,8

Source: MEF, Macroeconomic Unit, 2002.

* - Values for imports and exports are given for the period January- June 2002.

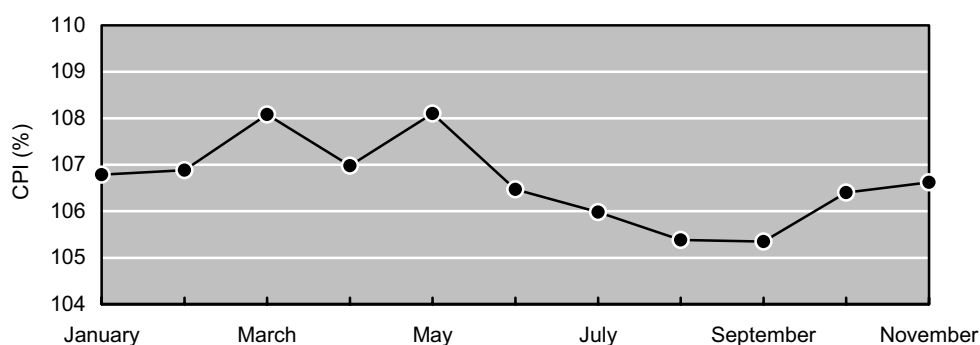


Fig. 1.1. Trends of changes in consumer prices during the period January – November 2002; January 2001 = 100 [Source: MEF, Monthly Macroeconomic Monitor, December 2002.]

(iii) Respondents to our opinion poll of November 2002 are somewhat more positive about the current economic situation in Kosovo than those polled in July 2002. One positive influence could be attributed to the 2.1% increase in the Euro

¹ Ministry of Economy and Finance: Macroeconomic Monitor, Quarterly Outlook, August 2002.

² In 2001, the annual inflation rate was about 11%.

parity to US dollar during the summer of 2002. However, overall current perceptions of the respondents on the current economic situation in Kosovo are generally unfavorable (Table 1.2). 56.1% of respondents have articulated a negative opinion on current economic trends, out of which 18.2% are “not satisfied at all”, whereas only 14.7% are “satisfied” and 0.7% “very satisfied”. The most significant dissatisfaction (“not satisfied at all” and “dissatisfied” categories) is expressed by Serb respondents (67.9%), rather than by Albanian respondents (56.1%), and to a lesser degree by respondents of other communities (48.3%).

Table 1.2. Perceptions of respondents on current economic trends in Kosovo (in percentages)

	Albanians	Serbs	Others	Total*
Not satisfied at all	17.8	27.8	14.1	18.2
Not satisfied	38.3	38.1	34.2	38.0
Neither satisfied nor dissatisfied	25.1	26.3	28.3	25.4
Satisfied	15.2	3.6	18.5	14.7
Very satisfied	0.7	0.0	2.2	0.7
DK/NA	2.9	4.1	2.7	3.0
Total	100	100	100	100

Source: Opinion poll, November 2002.

* - The data has been weighted based on the percentage of community participation in the overall population of Kosovo (88% Albanians, 6% Serbs and 6% other communities), according to the 1991 census

2. The socioeconomic situation in Kosovo is still characterized by sharp disparities amongst some key macroeconomic indicators. These disparities are related to the inherited low level of economic development of Kosovo, the consequences of the 1999 conflict and also the current complicated processes of transition. Especially unfavorable disparities exist between: (i) GDP and consumption, (ii) exports and imports, (iii) the labor force supply and demand (iv) the consolidated budget of Kosovo vis-à-vis operational budgetary expenses and capital investments. Current problems with the coordination of measures and activities between the UNMIK administration and the Kosovo institutions could potentially worsen such disparities. GDP growth during the period 2000-2002 is satisfactory. However, forecasts on future developments remain unclear, considering the problems mentioned above.

This situation must be addressed in an efficient manner in order to ensure Kosovo's transition from a post conflict phase to one of sustainable economic development.

3. Neither UNMIK nor Kosovo institutions have so far been able to produce a vision or a consistent strategy that outlines economic policies that would adequately address these challenges. Since the economic policies that are currently being followed are not part of a comprehensive long term strategy it is difficult to assess their effectiveness. There are still no signs that the most responsible stakeholders in Kosovo are working to establish such a strategy. As such there is no proper analysis or suggestions as to how the economy will progress over the next 3-5 years when international financial assistance will be significantly reduced. A comprehensive analysis is needed in order to show how income generation and job creation from internal sources would be able to avoid a possible economic recession once international donor contributions significantly decrease. The strategy should outline policies for overcoming difficulties in such a situation.

Consolidation of budget and future challenges

4. Economic growth and the consolidation of the fiscal administration have contributed to ever growing fiscal sustainability. Progress has been made especially in relation to the growth of domestic revenues. Tax revenues have increased as a share of Kosovo's GDP: 8.0% in 2000, 17.1% in 2001, and 20.0% in 2002. A significant increase in budget revenues has been marked during this period: from €222.9 million in 2000, to around €409.0 million in 2002 (Table 1.3).

Table 1.3. Budget indicators (in millions of Euros)				
	2000	2001	2002*	2003**
Total budget revenues	222.9	369.8	409.5	489
- Domestic revenues	120.6	283.5	406.2	464
- Donations	102.3	76.3	3.3	25
- Border crossings revenues	113.8	242.3	344.9	-
- Customs	30.9	47.6	56.0	53.4
Taxes/Budget (%)	55.2	77.6	89.5	95.7
* - EFC & MEF, Monthly Macroeconomic Monitor Kosovo, September 2002				
** - projection (EFC & MEF, Monthly Macroeconomic Monitor Kosovo, December 2002)				

5. Despite these achievements, the IMF has recently expressed several concerns and has given several recommendations to both UNMIK and the Kosovo government regarding the current situation and expected future trends. Recommendations are: (i) Special attention should be paid to midterm fiscal sustainability by stimulating the development of the private sector; (ii) Current proposals for lowering custom tariffs endanger budget revenues, so that Kosovo's government needs to have a careful approach to this issue; (iii) Wage policy should be restrictive, and the increase in wages should be synchronized with the inflation rate, together with measures taken for reducing the number of employees in civil services, (iv) Subsidies for public enterprises should be decreased, with a stimulation of their restructuring and an improvement in the collection of bills, and (v) The Central Fiscal Authority (CFA) should, as soon as possible, merge into the Ministry of Economy and Finance (MEF)³.

The following issues should be addressed:

- Although budget support by international donations has decreased from 46% in 2000, to 21.0% in 2001 and to about 1% until September 2002⁴, UNMIK still continues to exercise exclusive power in managing the expenditure of one part of the consolidated budget of Kosovo. It is projected that in 2003 this part of the budget will amount to €138.7 million, which makes up 28.6 % of the overall budget. In order to avoid possible disputes between UNMIK and the PISG regarding this part of the consolidated budget, it is necessary that these bodies achieve a consensus about its share in the overall budget, as well as to ensure transparency regarding its management.
- Pressure on the consolidated budget of Kosovo is twofold. There are requests for an increase in wages and there are requests for more employees in public administration and public enterprises. According to the official

³ In January 2003, the CFA merged into the MEF; however, discussions with UNMIK regarding the handover of competencies are still ongoing.

⁴ The budget support by international donations for 2002 was projected to amount to about 7% of the consolidated budget of Kosovo.

data of the Macroeconomic Unit of the MEF, employment in the budget sector in August 2002 reached 57,525 employees⁵, with an average wage of €136 per month (education €129, healthcare €123 and environment €169). This high level of employment in the budget sector is jeopardizing the maintenance of the current level of wages, which are anyhow considered to be low. The teachers protest last year over poor salaries is indicative of possible future protests. For the moment, the demands of the teachers have been satisfied temporarily, by giving them a short term financial assistance, but it is not certain whether a long-term solution to the problem has been found. A long-term solution to this issue could be achieved by ensuring that the number and quality of teachers is in line with demand and ability to pay.

- The business community continue to demand tax relief on imports of agricultural equipment, as a measure for encouraging investments and the creation of new jobs. There is an unnecessary delay in resolving this issue, as the benefits in terms of the long-term contribution to economic growth far out weigh the costs of providing tax relief in this instance.
- Within budget expenses, subsidies continue to be provided to public enterprises and socially owned enterprises. Transformation of these enterprises has been slow and they remain inefficient. Subsidies in 2002 accounted for €74.3 million or 16.7 % of budget expenses⁶. Subsidies are mainly provided to KEK (68.8 %), KTA (15.0 %) and to other public enterprises (10%). For next year (2003) budgetary subsidies have been planned for Trepça Mines, Pristina Airport, Railways, Central Heating Company (Termokos) and some other public services. Further continuation of this sort of budget policy is not justifiable, bearing in mind the need for restructuring and liberalization of the market, and especially the need for increasing the efficiency of bill collection for the services provided to consumers.
- Liberalization of trade in the region and the asymmetrical position of Kosovo in these trade relations are having a major impact on building the budgetary stability of Kosovo. Since Kosovo should soon join the free trade zone in the region, this will decrease the level of customs revenues. During the period 2000-2002 the share of customs revenues in the overall budget was 13%, whereas it is foreseen that during 2003 this share will be 9.2%. Consequently, any change in the structure of budget revenues should be performed carefully, in order not to endanger fiscal and budgetary sustainability. The decrease in customs revenues should be compensated by an increase in financial means amassed from tax collection.

6. Due to the consequences of war and the limited possibilities of Kosovo in terms of capital investments, the budget for capital investments for the period 2000-2002 has been provided by the donor community. During 2002 the issue of obtaining capital investments was the subject of numerous debates between the Kosovo Government, UNMIK and donors. The conclusion of these debates was that an immediate withdrawal of donors would jeopardize the transition to a sustainable economy. Based on this state of affairs, in November 2002 the donor community assessed the needs and priorities of the Government of Kosovo, and has expressed its willingness to continue with economic aid for Kosovo. However, during the period 2003–2005 Kosovo donor contributions will be approximately

⁵ The total labor force registered in August 2002 in Kosovo amounted to 184,699 employees.

⁶ Document on the Consolidated Budget of Kosovo for the year 2002.

€0.5 billion or a quarter of the \$2.3 billion received from 1999 – 2002. There is, as yet, no assessment on how to overcome the need for capital investments for 2003-2005.

7. Amongst the major problems burdening the sustainability of Kosovo's budget is the huge difference between the volume of budget revenues collected from border crossings and those collected from within Kosovo. Budget revenues collected from border crossings amount to 84.5% of the total budget, whereas revenues collected from within Kosovo amount to only 15.5%. Of special concern is the low level of VAT currently being collected within the territory of Kosovo. A taxpaying climate and full efficiency of the tax administration within Kosovo have still not been achieved. The present structure for revenue collection does not offer sufficient sustainability for the consolidated budget. In addition, imports will decline once the emergency reconstruction phase comes to an end.

8. Current positive trends in broadening the taxation base in Kosovo may be threatened by inappropriate approaches by tax authorities which do not take into account current developmental needs and social criteria. In some municipalities criticism has been aimed at the current system of collection of property taxes. Municipalities have been criticized because (i) whilst establishing taxation rates authorities did not take into account the age of the buildings (i.e. their depreciation), (ii) authorities did not fully respect the criteria for division into zones, and (iii) the applied rates are too high (such as in the case of Pristina municipality⁷). As a result, only 10% of taxes on private property were paid during the current pilot phase, whereas public and socially owned enterprises still do not pay these taxes.

9. The fact that, starting from next year, employees in Kosovo will have to pay 20% tax on their income is viewed with a lot of skepticism⁸. It is possible that in the circumstances currently prevailing in Kosovo, the application of this taxation rate on incomes higher than €3000 per annum would only encourage people to enter the informal labor market in order to avoid paying tax. Therefore, it is necessary to review the threshold value for implementation of this type of tax, in order to find a level that would not endanger the living standard of citizens⁹.

10. There are still many forms of tax evasion present in Kosovo. The most contested issue during the past three years, for both institutional and trade entities, was the free trade agreement between FRY and FYROM. This agreement creates huge discrepancies between Kosovan producers and those from FYROM, particularly as FYROM is the major exporter to Kosovo. The fact that exporters of goods from FYROM are not subject to 10% custom tax gives them a great comparative advantage in the Kosovo market¹⁰. Apart from this, the border crossings are still not supervised properly. The entry of fuel and other products especially cigarettes with high excise values via illegal routes (such as through pipes at the border with Montenegro), pose a huge obstacle to equality in the market, fair competition and the building of a free market economy in Kosovo.

⁷ The applied rates in Pristina municipality are more than three times higher on average than in other municipalities.

⁸ From the Riinvest seminar on some issues of tax policy and taxes in Kosovo, 19 December 2002.

⁹ According to the new amendment to the wage tax regulation, only those employees receiving a monthly wage above 450 euros will need to pay the 20% tax (and only for the amount above 450 euros). This change will not affect by and large public sector employees whose wages are less than this.

¹⁰ According to this agreement, products imported from FYROM do not pay any taxes apart from an administrative tax of 1%.

According to the World Bank's assessment¹¹, different treatment of custom taxes is currently being applied at all four border crossings around Kosovo. These differences at the border crossing points tighten the fiscal base, cause major deviations of the fiscal policy and create possibilities for corruption, abuse and evasion. One possible way of achieving a reduction in tax evasion is by ensuring that custom taxes are applied equally at all four border crossings.

11. The current relationship between the MEF and the CFA of Kosovo can have major consequences on the sustainability of the budget. Difficulties escalated at the end of 2002, mainly regarding the competency for approval of Kosovo's budget. As a result, the Assembly of Kosovo addressed a letter to the Office of Legal Affairs of the United Nations in New York. The circumstances under which the MEF is currently operating (without sufficient and clear authorization on the basic issues of its scope of activities) has led to much misunderstanding and confusion. The debate on the need to merge the CFA within the MEF distracted attention from key budget issues. In addition to efficiency issues, this ambiguity regarding the competency and manner of managing the budget can also impact on transparency and accountability.

The banking system and business finance

12. The current relatively positive trends in the functioning of the financial and banking system are challenged by:

- Insufficient functional legislation, and especially a lack of legislation in some important areas (bankruptcy, deposit insurance, accounting).
- Lack of effective implementation of guarantee instruments (mortgages), and a still inefficient judicial system.
- Lack of implementation of a stimulation policy that would increase term deposits, especially long-term ones.

13. The loan activities of banks continue to be implemented without the effective influence of guarantee instruments. Even though the necessary laws on mortgages and on registration of real estate have been approved, their non-implementation has had a negative impact on loan activities. During the period August-November 2002, total deposits showed an increase of 3.5%, term deposits remained at the same level, whereas loan provision has increased to 11.2%. However, the current level of loans provided is not sufficient to fulfill credit demands, and does not support employment and income generation. The share of loans in Kosovo's GDP is

Table 1.4. Trends of loans and deposits (in millions of Euros)

Period	Total deposits	Term deposits	Commercial loans	Share of loans in total deposits (%)	Share of loans in term deposits (%)
May 2002	377.4	118.0	56.6	15.0	48.0
June 2002	377.4	112.7	59.0	16.6	52.3
July 2002	374.5	117.1	61.6	16.4	52.6
August 2002	390.8	120.4	65.3	16.7	54.2
September 2002	389.9	119.1	68.0	17.4	57.1
October 2002	404.7	120.3	72.6	17.9	60.3

Source: *Monthly Statistics Bulletin, BPK, November, 2002*

¹¹ World Bank: Report No. 24880: The Midterm Public Expenditure Priorities.

considerably lower than in other countries of the region. In 2002 this share amounted to about 1.4%, and in 2002 to about 3.6%¹². The insufficient increase in provision of loans and the growing demand of businesses for financing of their activities is an issue that should be addressed by the economic policy makers. Time deposits are the best indicator of the trust of the population and businesses in the banking system. During the period December 2001 – June 2002 a slow decrease in term deposits was marked, and ever since July 2002 their level has fluctuated at about €120 million (Table 1.4). This level of deposits and their structure do not provide enough capacity for long-term loans for businesses. In October 2002, the share of term deposits engaged in loans was around 60%. Currently, the lack of loans is having a negative effect on the creation of new enterprises and new jobs, especially in the small business sector that is oriented toward production.

14. Two events that occurred at the end of 2002 are of special importance to the development of the banking and business finance sector:

(i) The credit arrangement agreed between the KfW- (German Crediting Bank) and the Bank for Private Business with the aim of implementing a long-term loan scheme for small and family businesses in Kosovo. The KfW has provided €1.8 million to the BPB for the support of small enterprises in Kosovo. Even though small this agreement promotes good practice in terms of increasing the volume of loans for businesses.

(ii) The sale of 76% of shares of the American Bank of Kosovo to the powerful banking group RFB (Raiffeisen Bank) marks the beginning of a financial market in Kosovo, and offers realistic possibilities for the development of credit supply in Kosovo, as well as for an improvement in conditions for the support of businesses.

The living standard of families and unemployment

15. Poverty remains at a high level, and does not show signs of improvement since the last survey on poverty carried out by the World Bank in 2000. The survey with 1,252 families, conducted recently by the “Riinvest” Institute for a labor market and unemployment study, shows that about 19% of families assess their living conditions as “poor” and about 31% as “below average” (Table 1.5). According to this survey, around 50% of the population live on the verge of poverty, and that the number of those who consider themselves to be really poor is increasing. About 76.4% of the surveyed families secure their income by working in family farms, 6.9% live on social assistance, 6.0% live from the sale of family products, and 3.9% of families secure their living from other sources. According to official data¹³ published in October 2002, 50,622 families or 181,333 family members were supported by the social assistance scheme, roughly 9% of Kosovo’s population.

Table 1.5. The living standard of families in 2002	
Perception of living standard	Percentage
Poor	19.0
Below average	30.9
Average	47.0
Above average	2.7
Wealthy	0.4
Total	100
Source: Riinvest, Survey of 1,252 families, December 2002.	

16. The opinion poll conducted in November 2002 reflects the level of dissatisfaction of the population with this situation. About 33.5% of respondents replied that they were “dissatisfied” or “not satisfied at all” with the current economic situation of their families (30.2% of Albanians, 50.5% of Serbs and

¹² The share in countries of the region in 2001 was as follows: Albania 6.8%, Romania 9.4%, FYROM 18.2%, Bosnia and Herzegovina 44.4% and Poland 30.3%.

¹³ Ministry of Economy and Finance: Monthly Macroeconomic Monitor Kosovo, October 2002.

47.8% of other communities) – see Table A.4 in the annex. Around 25% of respondents declared that their economic situation has worsened compared to a year before (around 24% of Albanians, 27% of Serbs and 41% of other communities).

17. Unemployment continues to represent a factor that causes dissatisfaction amongst Kosovans. Earlier opinion polls indicated that the respondents saw unemployment as one of the major problems facing Kosovo, but the opinion poll conducted in November 2002 shows that unemployment is now seen as the biggest problem for Kosovo (Table A.1 in the annex). According to a recent Riinvest survey¹⁴ conducted with 1,252 families (8,552 individuals), the unemployment rate in Kosovo is about 49%. The highest unemployment rate prevails in rural areas – about 54.5%, whereas in urban areas the rate amounts to 43.6%. According to data published by the Ministry of Labor and Social Welfare¹⁵, 255,978 job seekers were registered in job centers around Kosovo¹⁶, which represents only a part of the unemployed or inactive population. Despite the advantages gained by registering at labor offices, such as help in applying for and seeking a job, training and social benefits, it turns out that a considerable number of the unemployed continue not to apply for jobs at these offices.

Public services

18. Public services in Kosovo are very poor. In 2002 the situation has worsened especially in relation to power supply to citizens and businesses. Our opinion poll conducted in November 2002 shows that 93% of respondents are either “not satisfied at all” or are “dissatisfied” with the current power supply situation. About 65% of respondents are not satisfied with the situation in public sanitation, whereas around 60% are not satisfied with post and telecommunication services (Table 1.6). 70% of respondents are satisfied with the education system, whereas around 80% have expressed a favorable opinion on the public broadcaster (RTK).

Table 1.6. Opinions on public services (%)						
	Education system	Public TV (RTK)	Post and Telecom	Power supply	Water supply	Public sanitation
Very dissatisfied	4.9	7.3	29.4	65.8	18.8	29.0
Dissatisfied	23.7	11.9	31	27.1	28.2	35.9
Satisfied	64	62.1	34.5	6.1	43.9	31.9
Very satisfied	7.4	18.7	5.1	1.0	9.1	3.2
Total	100	100	100	100	100	100

Source: Opinion poll, November 2002.

19. With regard to the severe situation with the supply of power, 43.3% of the respondents of our opinion poll think that managers of the Kosovo Energy Corporation are responsible for the current problems with the power supply. 15.5% of respondents think that citizens who do not pay their electricity bills are also responsible, while 13.2% of respondents blame UNMIK, and 12.2% blame the Government of Kosovo for this situation (Table 1.7). Local authorities are charged

¹⁴ Institute for Development Research “Riinvest”: Labor market and unemployment, Survey of 1,252 families, November 2002.

¹⁵ The Ministry of Labor and Social Welfare Press Release, 15 December, 2002.

¹⁶ Around 92.4% of jobseekers were Albanians, whereas 7.6% were from other communities. The major part of jobseekers have primary school education (61.3%) and secondary school education (36.4%), whereas 2.3% have higher education. Around 70% of jobseekers are 16-39 years old.

with blame for problems with water supply and the provision of proper public sanitation services.

Table 1.7. Opinion regarding responsibilities for problems in public services						
Responsible entity	Education system	Public TV	Post and Telecom	Power supply	Water supply	Public sanitation
Managers of these services	30	55.6	58.5	43.3	23.7	19.9
Local government	10.5	4.2	4.8	1.1	22.3	17.6
Government of Kosovo	35.3	15.7	12.5	12.2	7.6	5.2
UNMIK	8	12.7	9.6	13.1	3.4	3
Citizens who do not pay bills	1.7	2.6	6.1	15.6	27.3	23.1
All share the blame	14.5	9.2	8.5	14.7	15.7	31.2
Total	100	100	100	100	100	100
<i>Source: Opinion poll, November 2002.</i>						

There is a need for more commitment by all actors to overcome this situation. These problems are also related to the confusion regarding the managing competency between UNMIK and PISG, as well as regarding relations between central and local authorities, the regulator and service providers.

POLITICAL AND INSTITUTIONAL STABILITY

Political processes after local elections

20. The local elections held on 26 October, 2002 were another positive step toward democracy and stabilization in Kosovo. They have been assessed as yet another “success story”¹⁷ for the international missions acting in Kosovo (UNMIK,

OSCE, KFOR), as well as for the local political community¹⁸. In general, they brought about a substantive change to the relations between political parties. Competition of programs and ideas dominated these elections as opposed to the last elections where campaigns were based on personalities, political symbols and recent history.

Confrontation between parties at municipal level was, in part, alleviated thanks to the commendable coalition created earlier between Kosovo’s central institutions - the LDK, the PDK and the AAK. All large parties were satisfied with the outcome of the

elections: the LDK, as the winner of the elections; the PDK and the AAK due to the fact that they ensured a majority in some municipal assemblies. The establishment of the coalition of various political parties as well as the ease in the setting up municipal assemblies and administrations indicates that parties have sincerely embraced the rules of democratic competition for power.¹⁹ However, major parties still insist more on the proportional division of branches of power rather than on creating a sustainable coalition of programs.

21. The relatively favorable developments before, during and after the elections influenced the public’s perception of current political developments and their opinion has become more favorable than it was during the summer of 2002. The public opinion poll carried out in November 2002 shows that about 31.9% of Albanian respondents declare themselves to be “satisfied” or “very satisfied” with current political developments, as opposed to the 13.9% from the poll conducted in July 2002. However, the same can not be said in the case of Serb respondents. Their

Table 2.1. Opinion on current political trends in Kosovo based on the political affiliations of respondents

	LDK	PDK	AAK
Not satisfied at all	7.7	7.7	12.3
Dissatisfied	16.5	18.5	26.2
Neither satisfied nor dissatisfied	35.6	39.0	36.9
Satisfied	33.8	29.7	18.5
Very satisfied	4.1	3.1	1.5
NA/DK	2.3	2.0	4.6
Total	100	100	100

¹⁷ “This is a major success story”, UNMIK/PR/864, Tuesday, 5 November, 2002 - SRSG Michael Steiner’s Speech to Donors’ Conference, Brussels, 5 November.

¹⁸ “So far as the political dimension is concerned, the municipal elections of ten days ago represent a step forward”, UNMIK/PR/864, 05 November, 2002 - SRSG Michael Steiner’s Speech to Donors’ Conference, Brussels, 5 November.

¹⁹ The step made by the PDK candidate for Pristina’s town mayor, when he visited and congratulated his opponent from the LDK on his election, not only had the symbolic meaning of respect for the voters’ will, but also marked a significant turning point in overcoming the old and undemocratic views and tendencies to exclude the other parties.

opinion has not altered – only 5.1% have declared themselves to be “satisfied” or “very satisfied”²⁰ (see Table A.2 in the annex).

Despite the more favorable opinion regarding current political developments compared to the one expressed in July, the percentages of respondents who are “not satisfied at all” or “dissatisfied” (27.3% of Albanians, 77.4% of Serbs and 22.8% of the rest), as well as of those who are “neither satisfied nor dissatisfied” (35.4% of Albanians, 14.4% of Serbs and 20.1% of the rest) are still quite high. It should be pointed out that respondents who voted for the AAK are less satisfied with current political developments than those who voted for the other major Albanian parties (LDK and PDK) – see Table 2.1.

The relatively high level of dissatisfaction amongst respondents ought to be considered in correlation with the reasons for non-participation in the local elections by a large number of voters (about 46%). Amongst the various reasons for non-participation in the elections, respondents of the opinion poll emphasized their disappointment with the institutions which emerged from the previous elections (Albanians 35.9%, Serbs 25.3%, the rest 1.8%). Disappointment with political parties is attributed to the fact that they did not meet the expectations of the respondents (Albanians 12.8%, Serbs 27.5%, the rest 18.5%). Insufficient competence of local institutions is also blamed (Albanians 5.1%, Serbs 1.1%, the rest 3.7%). These statements show that their disappointment is mostly in connection with local policies and institutions, especially municipal ones, since the positive rating of central institutions amongst Albanians is still very high (the Assembly of Kosovo 78.2%, the Government of Kosovo 74.2%). A lower rating for local government institutions is recorded (“satisfied” and “very satisfied” 48.9%; “dissatisfied” and “not satisfied at all” 44.8%). It should be emphasized that Serb respondents have a completely different attitude towards these institutions compared to Albanian respondents, since amongst them the answers “dissatisfied” and “not satisfied at all” dominate (the Assembly of Kosovo 90.2%, the Government of Kosovo 97.9%; local governments 58.7%).

A more thorough analysis of the reasons for non-participation is needed in order to stop this from becoming a trend. The results of our opinion poll suggest that more effectiveness of local governments in fulfilling citizens needs and more efforts of political parties to meet voters’ expectations could contribute to an increase of voters’ turn-out in future elections.

The status of Kosovo and the unification of Mitrovica

22. Since the end of the conflict in June 1999 the issue of the status of Kosovo has been marked by differences in approach between the leaders and political parties of the majority population in Kosovo and the relevant international actors. Differences in the approach towards the status of Kosovo are as follows:

The views of the Albanian political leaders and parties. Albanian political leaders and parties consider that Kosovo’s independence should be recognized internationally and as soon as possible. It is perceived that this option would contribute to a more rapid development of Kosovo and also to stability in the region.

The views of UNMIK. UNMIK’s views regarding the status of Kosovo have become more transparent during the mandate of the current SRSG, Mr. Steiner. According to UNMIK, the solution of the status of Kosovo should be preceded by the fulfillment of a set of standards formulated by the SRSG. This concept has gained the support of the UN Security Council and the international community.

²⁰ Other communities declared themselves to be more satisfied than dissatisfied.

These differences in opinions have created a vicious circle. The international community find it reasonable to have the standards met before the status is finally resolved. On the other hand, Kosovan authorities and Albanian political parties share the opinion that these standards are impossible to meet without giving them the essential competence and responsibilities. They also believe that once political status is resolved then standards will be met more easily. A more dynamic transfer of authority from the international administration to the local one would contribute to a quicker elimination of this vicious circle, especially when requests for the resolution of the status of Kosovo have intensified lately. Another element that has had an impact in this direction was the publication of the draft of the Constitution of the Serbian and Montenegrin Union, a new state expected to be established in the upcoming months, which, in its preamble, defines Kosovo as an integral part of Serbia. The institutions of Kosovo (the Assembly, the President, the Government, as well as the political parties) declared this document to be invalid, as being in opposition to Resolution 1244 of the UN Security Council and prejudicing the status of Kosovo. Some political entities have invited the Assembly of Kosovo to proclaim independence as soon as possible, in response to Serbia's aspirations, which they consider to be illegal and in opposition to the will of the majority population of Kosovo.²¹ Another alternative being proposed by Albanian political forces is to change the UN Security Council Resolution 1244 following the establishment of the Serbian and Montenegrin Union, since this Resolution refers to the Federal Republic of Yugoslavia, a country that is in the process of dissolution.

23. Delays in forming local institutions as well as delays with the inclusion of Serbs in these institutions has become a key issue in enhancing and operationalising the democratic process in Kosovo. This also has a negative impact on achieving the benchmarks that must be met before the resolution of the issue of status. Various relevant parties assess that the way to resolve current obstacles²² is to begin a Serbian-Albanian dialogue, which has been lacking until now. UNMIK structures propose that the initial dialogue should not be about the issue of the status of Kosovo, but about concrete economic and political issues that would facilitate relations between the two communities in Kosovo, as well as relations between Kosovo and Serbia. However, the commencement of the dialogue is being impeded by both sides. Influential forces consider that conditions for dialogue have not yet ripened and they express their fear of the imposition of unwanted or compromising solutions²³.

²¹ On 22 December, 2002, the AFK approved and published the Declaration of the Independence of Kosovo, asking the Assembly of Kosovo to also approve it, "Koha ditore" daily, 22 December, 2002.

²² Serbian political parties in Kosovo continue to make conditions for their participation in Kosovo institutions, and even block Kosovo Assembly sessions by asking for substantial guarantees and concessions from UNMIK. In a meeting held in Gračanica on 22 December 2002, Serbian representatives declared that all the Serbs that have been included in Kosovo institutions should withdraw immediately, because through their participation they are contributing to Kosovo's independence; ("Kosova sot" daily, 23 December 2002).

²³ In Belgrade, immediate dialogue is opposed by FRY President, Vojislav Kostunica, while the Prime Minister, Zoran Djindjic supports it. There were no clear-cut statements against dialogue in Kosovo, although there is a degree of hesitation, which political advisors of the Kosovo Government justify with the fear that discussions with Serbia at the present time, when Kosovo institutions are still fragile, could result in an "inferior attitude of Albanian negotiators and in imposing compromises that would not be satisfactory for Albanian aspirations, and thus become an obstacle in achieving independence"; quote noted during a discussion with advisors of the Prime Minister of Kosovo.

24. The most fragile process currently taking place in Kosovo is the establishment of full administrative control by UNMIK and local institutions over those parts of Kosovo where a parallel Serbian administration, both controlled and funded by Belgrade²⁴, was functioning. The SRSG proclaimed the cessation of Serbian institutions on 25 November 2002, establishing international administration in North Mitrovica, an act that was supported by the UN Secretary General, Mr. Kofi Annan, and other international offices²⁵.

25. The establishment of UNMIK's authority throughout the territory of Kosovo shows the SRSG's determination to implement the UN Security Council Resolution 1244²⁶. It appears that this has had a considerable impact on the growth in confidence that Albanian respondents have towards UNMIK - an increase from 27.3% in July 2002 to 60% according to the poll of November 2002. - Satisfaction rates towards the SRSG have increased from 46% to 71.6% ("satisfied" or "very satisfied"). Trust in UNMIK has grown, even amongst the Serb respondents in our opinion poll, from 11.3% to 20.6%. This increase in confidence towards UNMIK amongst Serb respondents can perhaps be explained by the SRSG's publication of his plan for the decentralization of local authority and his promise to give competence to the so-called municipal units that would be established in Serbian enclaves²⁷. The recent process of the unification of Mitrovica, seems to have influenced respondents' perception that the issue of the status of Kosovo should not be considered exclusively as the major problem in Kosovo, as it was earlier²⁸ (see Table 2.2).

Table 2.2. The opinion of respondents regarding the biggest problems faced by Kosovo – ranking of five biggest problems for different periods in 2002

	Albanians	Serbs	Others
July 2002	The status of Kosovo (1), unemployment (2), corruption and poor governance (3), poverty (4), high prices (5)	The status of Kosovo (1), crime (2), high prices (3), corruption and poor governance (4), poverty (5)	The status of Kosovo (1), unemployment (2), corruption and poor governance (3), poverty (4)
November 2002	Unemployment (1), the status of Kosovo (2), power supply (3), poverty (4), the fate of the missing (5)	Interethnic relations (1), the status of Kosovo (2), public and personal security (3), unemployment (4), the fate of the missing (5)	Unemployment (1), power supply (2), poverty (3), the status of Kosovo (4), interethnic relations (5)

Source: Opinion polls conducted in July and November 2002.

Despite the enormous importance that unification of Mitrovica has, its future development should not be expected to take place without difficulties and problems. This is particularly so in relation to the complete elimination of parallel

²⁴ Mr. Steiner announced that Mr. Covic had agreed that there should be no funding for parallel structures. UNMIK/PR/774, Thursday, 11 July, 2002 / SRSG Michael Steiner addresses Permanent Council of the OSCE.

²⁵ "I would also ask the minority groups to join in and work with the institutions." UNMIK/PR/870, 19 November, 2002 - Kofi Annan statement.

²⁶ An article in the daily newspaper "Zëri" (26 Nov. 2002) "Steiner proclaims the unification of Mitrovica"

²⁷ An article in the daily newspaper "Koha ditore" (22 Oct. 2002) "Steiner proclaims the elements of the decentralization concept"

²⁸ The Albanian respondents have ranked the status of Kosovo as the second biggest problem in their agenda with 20.35%, after unemployment which ranks first with 21.8%, and before power supply (16.3%) and poverty (11.2%). Amongst Serb respondents the status issue with 16.35% ranks after interethnic relations with 16.85%, and before unemployment (13.7%) and the fate of the missing (10.5%). Amongst other minorities the status issue ranks fourth with 10.9%, after unemployment (28.7%), power supply (21.3%) and poverty (15.85%).

structures, as some parallel structures still continue to be active in this part of Kosovo. In the context of this process issues include: the establishment of the authority of Kosovo's institutions in the entire city of Mitrovica, ways of including Serb representatives - Serbs who live in this territory did not participate in the local elections held in October 2002. Other issues include the parallel institutions in other Serbian enclaves and municipalities with a Serb majority, like Leposavic, Zvecan and Zubin Potok.

The decision to move the KTA headquarters to North Mitrovica was supported by Albanian community representatives, who considered it to be a contribution to the speeding up of the process of the unification of this city. However, the relocation of the KTA headquarters from Pristina to Mitrovica could have a negative impact on the privatization process. The dilemma that is most often raised on this aspect is²⁹: how will the KTA attract foreign and non-Serb investors and how safe will they feel about moving to this part of Mitrovica? Any delay in the privatization process caused by this relocation would be depicted as UNMIK's and the SRSG's failure and would affect a drop in Kosovans' confidence in them.

Transfer of power from UNMIK to the PISG

26. The transfer of power from the international authorities to the local ones represents one of the most delicate issues regarding relations between UNMIK and the PISG. At the present time, the interpretation of the Constitutional Framework by some of UNMIK's representatives and the requests for more competence by the PISG are characterized by a high level of disagreement and misunderstanding between these institutions, with an indication that these problems will intensify. Some of the issues that have resulted in confrontation between UNMIK and the PISG include:

Legislation. During its first year of operation, the Assembly of Kosovo has issued only six laws, four of which have entered into force after the signature of the SRSG, while a further four are in the process of being issued³⁰. Besides the slow pace with which the Government of Kosovo and the Assembly are drafting and issuing laws, the low efficiency in the legislative function of the Assembly is also caused by delayed endorsement from the SRSG of the laws approved by the Assembly. Laws are often returned to the Assembly for review.

The appointment of judges and prosecutors. The appointment of 42 new judges and prosecutors by the SRSG in December 2002 was done without the approval of the Assembly of Kosovo and this has created new tensions between the PISG and the SRSG³¹. Besides the fact that the Assembly of Kosovo contested the appointment of some of the newly appointed judges and prosecutors, because of their suspicion that the appointees were part of the repressive bodies of Serbia in Kosovo, the Presidency of the Assembly of Kosovo, concluded in December 2002,

²⁹ "Privatization conducted with escort by police vehicles"; "Koha ditore" daily newspaper, 16 October 2002.

³⁰ The Assembly has also adopted two resolutions which have gone against the agreement between Serbia and FYROM on the borders of Kosovo, as well as against the preamble of the draft of the Constitutional Charter of the union between Serbia and Montenegro, which defines Kosovo as being part of Serbia. Both of these resolutions have been nullified by the SRSG.

³¹ In a TV statement given on 13 December, 2002, Hydajet Hyseni, MP, stated that the proposal for the appointment of new judges and prosecutors was included in the agenda of the Assembly, but Assembly members had required additional information from UNMIK on the candidates put forward, which is why the issue was postponed for another session. He also stated that the information required was never given and this issue was not dealt with in the sessions of the Assembly.

that the last appointment of judges and prosecutors was undertaken in contradiction to the Constitutional Framework³².

The CFA and the Kosovo Budget. Disagreements between the PISG and UNMIK representatives regarding the merger of the CFA into the MEF³³ were made public in a meeting held by the Economic and Fiscal Council on 13 December, 2002. Local authorities consider that the CFA should be merged into the MEF by the end of December 2002, particularly since the Constitutional Framework does not define the CFA as it currently stands. At the same meeting, the Assembly of Kosovo was requested to issue the Law on the Budget for the year 2003. In a session held on 23 December, 2003 the Assembly of Kosovo did not approve the Kosovo Budget previously approved by the SRSG. Instead it approved, with a majority of votes, the objections of the Parliamentary Committee regarding the way in which the budget had been approved³⁴.

KEK – Kosovo Electric Corporation. Despite investments of approximately half a billion Euros³⁵, power restrictions continue to be as extensive as they were immediately after the conflict. On 19 December, 2002 the Assembly of Kosovo held a debate on the electric power situation, and proposed that the Assembly should establish a Committee on Power. UNMIK representatives declared that the Assembly did not have the right to debate on this matter, let alone establish a committee on this issue, as the matter belongs to the reserved powers of the SRSG³⁶. Another UNMIK representative also stated that the Assembly could only appeal to residents to pay their bills for the power they consumed and could not interfere with the authority reserved for the SRSG³⁷.

The Serb University in North Mitrovica. This issue also represents one of the sources of disagreement between the PISG and international authorities. According to the Albanian language media, this University's license was issued by the SRSG without the consent of the Assembly of Kosovo or the local authorities in Mitrovica. The media also claim that this university is working, and will continue to work, according to Serbia's curricula. The Minister of Education of Kosovo, Mr. Rexhep Osmani, disputed this act of licensing, stating that Serbs do not recognize this Ministry or other local institutions and that a request should have been made to the Accreditation Agency of the Ministry of Education for its license³⁸.

27. It is expected that the intensity of disagreement between UNMIK and the PISG will continue in 2003. Some Kosovo Albanian MPs have started to question the very existence of the Assembly of Kosovo, because of its very limited powers. Further deterioration in these relations could seriously decelerate the pace of achievement of the standards proclaimed by Mr. Steiner. This would also impact on the resolution of the status of Kosovo. It is necessary therefore:

- To achieve the previous consensus between UNMIK and the PISG on strategic issues and to coordinate respective activities without further confrontation, especially in the field of legislation.

³² Daily newspaper "Zëri", 18 December, 2002

³³ In a statement given to TV stations on 13 December, 2002, the Minister of Economy and Finance, Mr. Ali Sadrija, stated that the CFA should inevitably merge into the MEF, since the CFA was not foreseen in the Constitutional Framework.

³⁴ Daily newspaper "Zëri", 24 December, 2002

³⁵ In a statement for the daily "Zëri", the Chief of UNMIK Press Office, Mr. Simon Hasselock, says that €500 million has been spent in repairing the power plants in Kosovo.

³⁶ Simon Hasselock, in the daily newspaper "Zëri", 20 December, 2002

³⁷ "Koha ditore" daily newspaper, 20 December, 2002

³⁸ KTV, 17 December, 2002, "Koha ditore" and "Zëri", daily newspapers, 18 December, 2002

- To accelerate the process of the transfer of the reserved powers of UNMIK in the fields where a restrictive approach towards the PISG authorities is an impediment to the further democratic development of Kosovo.
- To ensure more dynamic and efficient work of the Assembly of Kosovo and the active participation of its Serb members.

In addition, the current ambiguity regarding governmental competence and responsibilities in Kosovo highlights the need for an efficiency assessment on the way in which Kosovo is currently governed and on the existing share of power between UNMIK and the Government and Parliament

Decentralization

28. The decentralization of power undertaken by the SRSG represents a new concept for Kosovo. This concept proclaimed on 21 October, 2002³⁹, during the pre-election campaign for the 2002 local elections coincided with the efforts of the international community to convince Kosovan Serbs to participate in the local elections.

The decentralization model as proposed by My Steiner allows Kosovan Serbs to create municipal units within existing municipalities, with limited self-administration authorization, delegated by the municipal assemblies of which they are a part⁴⁰. The first decentralization model offered was backed by the relevant international authorities (the Council of Europe and the UN Security Council), although reactions that came from the local institutions were varied from support in principle to dispute. Because of the existing polarized interethnic relations between Serbs and Albanians, it should be expected that further power decentralization will be marked with disagreements and other difficulties, both in preparation and implementation.

29. The concept-model of decentralization presented by Mr. Steiner was initially supported by the PISG representatives (the Presidency, the Government, the Assembly and other officials), as well as by leaders of the major Albanian political parties. However, many objections were made later.

Albanian professional, political and academic communities are currently voicing opposition to the start of decentralization in the form and dimensions proclaimed by Mr. Steiner⁴¹. Criticisms are related to the motives for requiring the commencement of this process, its ethnic dimensions, as well as the level of administrative powers that would be transferred to municipal units.

30. At the start Kosovo Serb representatives failed to support Mr. Steiner's concept, even in principle. Their requests consisted of the establishment of a two-chamber system at central and local levels, as well as the establishment of new municipalities in those territories where Serbs comprised a majority, with the right to have these municipalities linked to a union of Serb municipalities⁴². This concept was considered by the Albanian side as an attempt to cantonize Kosovo or to divide it into two ethnic parts⁴³. After a meeting with the Serbian Prime Minister, Mr. Djindjic, on 25 December in Belgrade, the Serbian attitude changed. Mr.

³⁹ Announcement by the SRSG Michael Steiner, UNMIK/PR/850, 21 October, 2002.

⁴⁰ "Municipal units may be established for sizable non-majority communities. These municipal units will have a local council, administrative organs and a budget." Announcement by the SRSG Michael Steiner, UNMIK/PR/850, 21 October, 2002

⁴¹ Statements made by Naim Maloku (AFK) and Ismail Kurteshi (PPD) in the daily newspaper "Koha ditore", 15 December, 2002

⁴² A statement made by the Serb national Council on 20 October, 2002.

⁴³ Daily newspaper "Zëri", 16 October, 2002.

Djindjic has since stated that “Serbs agreed with the Serb self-government in Kosovo”. He added that security, education, health and justice issues continue to be vital areas of interest for Kosovan Serbs⁴⁴.

31. The current administrative territorial organization of Kosovo is regulated by the Constitutional Framework and the Regulation on the Municipal Governments in Kosovo. According to these two acts, local administration is organized at one level only, with municipalities as basic units. The imprecise definitions in the Regulation 2000/45 (article 5) regarding possibilities for formation of municipal sub-units could represent an obstacle for judicial formalization of the SRSG’s concept of decentralization, especially if their establishment would be carried out on the grounds of ethnic principles. Such a concept could imply that the international community is giving up the concept of a multi-ethnic Kosovo.

The success of decentralization in achieving democratic standards in Kosovo depends on its preparation and future implementation. In this sense, it is necessary that:

- the decentralization process be preceded by an overall study of the need to create municipal units;
- the appropriate amendments to the existing legal and constitutional provisions be supported by the PISG, and especially by the Assembly of Kosovo;
- decentralization includes all the municipalities of Kosovo and is an expression of the need to improve the quality of life for all the citizens of municipalities, and not to create new entities according to ethnic principles;
- The European Charter for Local Self-Government⁴⁵, as well as European and transitional countries’ experience serve as the basis for creating and transferring competencies from municipalities to municipal units.

⁴⁴ Daily newspaper “Koha ditore”, 26 December, 2002.

⁴⁵ Mr. Steiner has appealed to the European Council for help in this matter. On 2 December, 2002 a group of EC experts visited Kosovo and contacted many UNMIK and PISG representatives.

INTER-ETHNIC RELATIONS

Integration of minorities

32. The integration of Serbs and other minorities into Kosovan society, including their full participation in the political process, is one of the essential benchmarks in achieving democratic standards and building a democratic society in Kosovo. Apart from a few positive trends marked during 2002, the process of integration is still far from satisfactory. This especially holds true for the Serb community. One of the main factors impeding the process of integration is the fact that members of some minorities, especially Serbs, do not feel safe and cannot move freely throughout the territory of Kosovo. Although the overall situation of minorities in 2002 is better in comparison to the previous two years, freedom of movement for members of all minorities is not yet guaranteed. One example of this is a serious incident which took place in the town of Peja/Pec on 10 October 2002. A KFOR escorted bus that was carrying Serbs from the municipality of Istog/Istok was attacked by the Albanian citizens of Peja/Pec as the Serbs came to the town to withdraw their pensions. In order to have proper integration of minorities, there is a need to increase security beyond the enclaves. In this sense, more commitment is required from all responsible actors.

33. The polarization between Albanians and Serbs and the issue of security for some minorities (Serbs, Roma and to some extent Bosniacs) represent obstacles to the process of integration. Both the improvement in the security situation and the decrease in interethnic conflicts during most of 2002, have influenced public opinion on the question of Albanian-Serb relations, showing it to be more

favorable than in the past. In comparison to previous polls, the opinion poll conducted in November 2002 shows that a greater percentage of respondents think that “the relations between Albanians and Serbs are still tense, but there have been some improvements lately” (Albanians 36.3%, Serbs 17.7%, others 37.1%) – see Table 3.1. However, 34.1% of Albanian respondents, 68.8% of Serb respondents and 34.7% of others think that relations will continue to remain tense. This data shows that further work needs to be done to decrease interethnic tension in order to achieve a more successful integration of minorities into society. 80.6% of Serb respondents stated that

Table 3.1. Opinions on the Albanian-Serb relations (%)			
Options	Albanians	Serbs	Others
Relations are tense and will continue to remain so	34.1	68.8	34.7
Relations are tense, but there have been some improvements lately	36.3	17.7	37.1
Relations are tense, but there are substantial improvements	16.7	10.2	24.2
Relations are not all that tense	10.0	2.2	4.0
Relations are not tense	2.9	1.1	0.0
Total	100	100	100

Source: Opinion poll, November 2002.

further tensions in interethnic relations represent the most threatening factor to this stability (see Table A.5 in the annex). Decreasing ethnic tension is thus vital to the stability of Kosovo.

34. Municipal elections held in October 2002 were a good opportunity for Serbs to articulate their needs and problems and to protect their interests by electing their legitimate representatives. Reasons for participation in elections were significant, since before the elections the SRSG had announced the concept of decentralization, which offered considerable local governance for non-majority communities, through the so-called “municipal units”⁴⁶. Nevertheless, the turnout of Serbs for these elections was very low, especially in Mitrovica. Amongst the factors that led to the low turnout of Serbs were the calls of the Serb leaders to boycott the elections. These calls were justified by the belief that the concept of decentralization did not fulfill Serb interests⁴⁷. This not only delayed the process of decentralization for some time⁴⁸, but it also delayed the process of the integration of Serbs into Kosovan society. In a meeting with a focus group of Serbs, more favorable and optimistic opinions were given on the concept of decentralization in Kosovo (see box 3.1) than those given by Serb leaders. These opinions are perhaps indicative that Serbs in the municipalities where turnout was high are, for the first time legitimately co-governing with Albanians and others⁴⁹. These municipalities are located mostly in South-Eastern Kosovo

Box 3.1. The opinion of the Serb focus group on the process of decentralization in Kosovo

In the framework of canvassing opinions on the decentralization process, a meeting was organized with a Serb focus group made up of lawyers, educational workers and municipal officials from different parts of Kosovo. Some of the opinions expressed by this group are:

- The Serb community is not properly informed about the nature of the decentralization concept in Kosovo.
- Decentralization raises the hopes of Serbs to remain and return to Kosovo.
- It is expected that decentralization will contribute to the overall political stability in the region.
- Decentralization is understood to be an important element in the accomplishment of the concept of a multiethnic Kosovo.
- In order to implement decentralization successfully it is necessary that the representatives of Serbs in Kosovo are actively included in its drafting.
- The process of implementing the decentralization concept will meet considerable resistance by those communities which consider that decentralization will damage their national interests.

35. The opinions of Kosovan Serbs and Albanians on the willingness of their communities to contribute to integration are diametrically opposed. This is obvious by their statements on the cause of current interethnic tensions (see Table A.6 in the annex). 45.6% of Serb respondents think that the current efforts of Albanians for integration of Serbs are not sufficient, whereas 35% of Albanian respondents think that Serbs lack the willingness to integrate into Kosovan society. According to Serb respondents, a major chunk of responsibility falls to the Albanian leadership, while Albanian respondents see the responsibility mainly with Belgrade and its influence on the Serbs (see Table A.6 in the annex). These opinions imply that adequate efforts by both the Albanian leadership and the leadership from Belgrade can promote the integration process.

36. To date the efforts for the integration of minorities into Kosovan society were mainly focused on Serbs, while less attention was given to the integration of other minorities, especially to the integration of Bosniacs. Representatives of the Bosniac community voiced their dissatisfaction with this fact during meetings with Kosovan authorities, in which they presented their problems and difficulties with

⁴⁶ Announcement by the SRSG Michael Steiner, Prishtina, 21 October, 2002.

⁴⁷ O. Ivanoviq: “Serbs did not vote in Mitrovica because they consider the concept of decentralization non-essential and insufficient for the minimum of Serb interests”, Kosovo Information Center, Pristina, 26 October, 2002.

⁴⁸ M. Steiner: “With their low turnout for the elections, Kosovan Serbs ousted themselves from the decision making process in Kosovo”, Kosovo Information Center, Pristina, 31 October, 2002.

⁴⁹ “Novo Brdo will be governed by Serbs and Albanians jointly”, daily newspaper “Koha ditore”, 19 December, 2002.

employment, higher education and the health sector. Bosniacs at these meetings expressed their willingness for integration into Kosovan society, but they pointed out that they lack the support of the international administration and the donors, as well as the representatives of the majority population⁵⁰. In order to have an all-inclusive integration process and to create a genuinely multiethnic society, as opposed to a bi-ethnic society, it is necessary that in future, more attention must be paid to the integration of all communities that live in Kosovo.

37. A genuine integration of the minorities means full integration of the educational system, healthcare system, administrative services and public services. Very little has been achieved in this regard so far, especially concerning the Serb community. In many enclaves parallel systems still function, whereas in some parts of Kosovo access of Serbs to these services is made very difficult. A similar situation exists with the employment of Serbs and other minorities in the civil service of the Government of Kosovo and in municipal governments. According to some information, the percentage of Serbs employed as civil servants in the Government of Kosovo is under 8%, while in mixed municipalities it is under 1%. Such a situation is attributed to the lack of information available to Serbs on employment opportunities, difficulties that Serbs who work for UNMIK face from their compatriots, as well as to the small salaries from the PISG⁵¹.

Return of refugees

38. Despite the willingness and efforts of the international community and UNMIK to intensify the process of the return of refugees and displaced persons during 2002, the registered number of returnees during this year shows that no encouraging results have been achieved. According to the data available, up to the first half of October 2002, 1,698 persons have returned.⁵², which represents a small increase in comparison to 2001, but a decrease compared to 2000⁵³. Bearing in mind the great importance that the returns process has in both stabilizing the situation in Kosovo and promoting democracy, the international community is heartily committed. 2003 should therefore be a year of positive changes to the trend of returns. The commander of the peace-keeping troops in Kosovo, General Fabio Mini, made this public at the end of December, by saying that the main KFOR priority for 2003 will be support for UNMIK in the returns process and an increase in the number of returnees⁵⁴. However, no details were given to the public as to how this would be achieved.

The success of the returns process depends not only on investments for creating housing and other conditions for the returnees but also on creating a favorable societal environment in those parts where returns should occur. In other words, the returnees should be accepted and understood by the population of those parts. Based on current information available from internationals and locals on the

⁵⁰ After meeting the representatives of the Bosniac community in October 2002, the Prime Minister Bajram Rexhepi stated: "The delegation presented me many problems that the Bosniac community in Kosovo faces... As regards the institutions and myself, we will try never to neglect the Bosniacs. However, some things, some criteria are established by the international community... Some communities are privileged, and some are neglected"; "Alem" magazine in Bosniac language, Pristina, 19 October 2002.

⁵¹ Return to Uncertainty: Kosovo's Internally Displaced and the Return Process, ICG Balkans Report NO.139, 13 December, 2002, Pristina, Brussels.

⁵² <http://www.idpproject.org>.

⁵³ For more detailed data see: Early Warning Report #1, May-August 2002.

⁵⁴ Daily newspaper "Koha ditore", 24 December, 2002.

activities undertaken so far, very little has been done to this end. It is thus necessary that this dimension to the process of returns finds a special place in the future activities of both international and local players.

Table 3.2. Opinions of urban and rural respondents on the possibilities of the return of refugees (%)						
Options	Albanians		Serbs		Others	
	Town	Village	Town	Village	Town	Village
I agree that refugees should return to their properties	41,4	34,6	74,8	77,3	57,9	44,9
I agree that they should return to new settlements	4,5	1,9	13,0	15,2	5,3	2,9
I do not agree with their return at all	25,5	34,0	4,1	1,5	10,5	5,8
Does not concern me (there are no refugees in my neighborhood)	28,5	29,6	8,1	6,1	26,3	46,4
Total	100	100	100	100	100	100

Source: Opinion poll, November 2002.

39. Amongst the most important factors that may impact on the success of the returns process, is an unwillingness on the part of the Albanian population to accept the returnees. As in the opinion poll conducted in July 2002, the November poll shows that around 30% of Albanian respondents do not agree with the return process at all (see Table A.7 in the annex). Our opinion poll also shows that there is much less willingness amongst the Albanian respondents to support the returns in rural areas than there is in urban areas. Thus, around 41.4% of the Albanian respondents in towns agree with the return of refugees to their properties, compared to 34.6% of respondents who live in villages (see Table 3.2). This should be taken into account when making plans for the return of refugees. It is important to note that the percentage of respondents that agree to the return of refugees to new settlements is very low, regardless of the ethnicity of the respondents.

Despite the fact that Albanian respondents are now more willing to agree to the return of refugees to their properties, returns will be difficult as Serbs have sold many of their properties by entering into legal sales contracts.

Table 3.3. The willingness of respondents to accept the return of refugees to their properties - breakdown into regions (%*)							
	Pristina	Mitrovica	Prizren	Peja/Pec	Ferizaj/Urosevac	Gjakova/Djakovica	Gjilan/Gnjilane
Albanians	48,3	33,3	59,8	25,1	33,8	26,2	26,5
Serbs	100,0	68,3	-	-	90,0	-	75,7
Others	23,8	82,4	34,4	83,3	75	40	50

* - these percentages represent the percentages of answers to the four options offered to this question (see Table 3.2)

40. The willingness that people show to accept refugees who want to return is not the same in all parts of Kosovo. The opinions on this matter according to the regions are presented in Table 3.3. Albanian respondents from the Peja/Pec and Gjakova/Djakovica regions agree least to the return of refugees to their properties, whereas respondents from Prizren express the highest degree of willingness. Amongst Serb respondents, the ones with least willingness are those from the region of Mitrovica. The lack of support amongst the Albanian respondents of the Peja/Pec and Gjakova/Djakovica regions should be viewed in light of the fact that these two regions suffered most damage during the conflict in 1999. It is therefore

to be expected that the process of returns in these two regions would be more difficult than in the other Kosovo regions. This conclusion should also be taken into account when drafting the plans for a successful return of refugees.

PUBLIC AND PERSONAL SECURITY

The situation of public and personal security

41. Both international and local institutions and authorities generally agree that the level of public and personal security in 2002 has shown a visible improvement. This is also confirmed by official data released by the UNMIK Police⁵⁵. According to this data the number of serious crimes during the first nine months of 2002 was almost at the same level as that of the same period in 2001 – see Table 4.1. The overall number of these crimes was only 3% higher than in 2001. Whereas some categories have shown a considerable decrease; the number of murders, attempted murders, kidnappings and attempted kidnappings has fallen by around 40%⁵⁶. Despite this, and despite the ever-more efficient protection of citizens from these crimes, the situation with regard to public and personal security cannot be considered entirely satisfactory. The intensity of serious crimes is still high, particularly bearing in mind the relatively large number of international and local police forces, the size of the territory of Kosovo and the size of its population.

Table 4.1. Some of serious crimes registered in the first nine months of 2002 compared to the same period in 2001

Type of crime	2001	2002	Change (%)
Murder	89	51	-43
Attempted murder	181	102	-44
Kidnapping	126	81	-36
Attempted kidnapping	72	40	-44
Rape and attempted rape	103	88	-15
Arson	221	353	+60
Assault	186	346	+86
Robbery	401	364	-9
Total	1.379	1.425	+3

Source: UNMIK Police Press Release, 29 October 2002.

42. Serious crimes that have shown a considerable increase in 2002 in comparison to 2001 are: assaults (+86% by the end of September 2002) and arson (+60%). These crimes have a particular effect on endangering public and personal security, as well as personal and social/state property. It is thought that the current increase in cases of arson can be attributed to the ever-growing practice of setting fire to property such as haystacks, vehicles and farm facilities, the aim of which is to cause disputes amongst citizens.⁵⁷

According to KFOR data⁵⁸, by the end of December 2002 there had been 943 cases of armed violence, 109 violent acts against UNMIK, 2,203 violent acts against the KPS, 493 protests, while 2,444 individuals had been convicted of armed violence. Of special concern are the violent attacks against UNMIK members as well as the high number of cases of violent attacks against members of the KPS, as it is

⁵⁵ UNMIK Police Press Release, 29 October, 2002.

⁵⁶ CIVPOL unofficial data shows that during October and November there was no major shift in the trends of these crimes compared to previous months.

⁵⁷ UNMIK Police Press Release, 29 October, 2002.

⁵⁸ From the meeting between COMKFOR, Mr. Mini with journalists on 23 December, 2002; daily newspaper "Koha ditore", 24 December 2002.

expected that responsibility for personal and public security will soon be transferred to the KPS.

43. Despite the visible improvement in public and personal security, a relatively large number of Kosovans still do not feel safe. According to the opinion poll conducted in November 2002, “not too safe” or “not safe at all” when alone at home was the reply of 26.5% of Albanians, 42% of Serbs and 28.6% of others. When outdoors those that felt even less safe are: 40.7% of Albanians, 59.3% of Serbs and 28.5% of others (see Table A.8 in the annex).

This feeling of insecurity is not uniform for all regions in Kosovo. In Table 4.2 perceptions of the respondents of the seven Kosovo regions are presented. Albanians feel less safe in the regions of Gjakova/Djakovica, Ferizaj/Urosevac and to a certain extent Peja/Pec, whereas they feel safest in the Gjilan/Gnjilane region. The great feeling of insecurity felt in the region of Gjakova/Djakovica is related to the numerous cases of robberies by ‘masked gangs’, which operated in this region for several months before this poll was conducted. The situation of insecurity in the region of Ferizaj/Urosevac can most probably be linked to the rape and murder of a young woman, that happened shortly before our poll was carried out. On the other hand, the Serb population of the regions of Pristina and Mitrovica, as well as some other minorities in the regions of Mitrovica, Ferizaj/Urosevac and Gjilan/Gnjilane, feel very unsafe when compared to other regions. This is most probably related to the lack of freedom of movement in the enclaves that exists in these regions. The fact that the Serbs who live in the region of Ferizaj/Urosevac, namely in the Municipality of Shtërpce/Strpce, feel much safer and can move freely is encouraging. Currently, the situation with regard to the freedom of movement of both Serbs and Albanians in this Municipality is much better than before the local elections held on October 2002.

Table 4.2. Opinions on safety from crimes and violence in the regions of Kosovo, when respondents are home alone and when outdoors (percentages of respondents who feel “not too safe” or “not safe at all”)

Home alone							
	Pristina	Mitrovica	Prizren	Peja/Pec	Ferizaj/ Urosevac	Gjakova/ Djakovica	Gjilan/ Gnjilane
Albanians	25.0	19.0	24.8	27.5	33.7	54.8	20.2
Serbs	100.0	41.2	-	-	5.0	-	25.0
Others	3.3	30.4	3.2	19.4	80.0	33.3	-
Outdoors							
	Pristina	Mitrovica	Prizren	Peja/Pec	Ferizaj/ Urosevac	Gjakova/ Djakovica	Gjilan/ Gnjilane
Albanians	40.7	32.0	39.3	43.5	43.0	66.7	23.1
Serbs	100.0	61.1	-	-	5.0	-	60.0
Others	6.7	56.5	14.3	30.6	80.0	33.3	100.0

Source: Opinion poll, November 2002.

Recently a number of explosions occurred which were deemed to be terrorist acts and as such aroused a lot of fear amongst citizens. The first incident happened in the village of Kllokot/Klokot, with a series of explosions in Serb owned properties. In two villages in the municipality of Istog/Istok, two Orthodox churches were destroyed with explosives, and in mid-December 2002 a car-bomb exploded in a busy street in Pristina, wounding 32 people and causing considerable damage. These

explosions happened before important events were due to take place ⁵⁹. They were thus interpreted by the Kosovo Albanian language media as attempts to destabilize the political situation in Kosovo. However, the police were never able to give any indication as to who had committed these terrorist acts or to what the ethnicity of the perpetrators was. A car-bomb also exploded on 25 December in Peja/Pec, leaving the driver of the car dead at the scene and wounding another person.

In relation to possible political implications, probably the most severe terrorist act was the armed attack in Peja/Pec on 4 January 2003, when Mr. Tahir Zemaj, a former commander of the KLA wing lead by the Kosovo Government in exile (1999), was shot dead in his car along with his son and his cousin. The LDK leaders proclaimed this terrorist act to be politically motivated, and numerous protests were held. The situation has become very tense, people do not feel safe, and if the leaders of all political parties do not take action to calm peoples feelings, the situation could escalate further.

In light of the fact that terrorist acts contribute to the sense of fear amongst citizens it is necessary to pay more attention to the investigation of these crimes and prosecution of their perpetrators. In order to facilitate this, the police and investigative bodies have to be properly equipped and professionally trained.

The factors influencing public and personal insecurity

44. Factors that create the feeling of insecurity within the population of Kosovo are many and complex and include:

(i) **Dissatisfaction with the work of judicial bodies.** Our opinion poll shows that the perceptions of respondents on the performance of investigative and judicial bodies differ. In general, respondents are much more satisfied with the performance of investigative bodies than they are with the judiciary.

Table 4.3. The opinions of respondents on the work of investigative and judicial bodies, November 2002 (%)						
Institution	Albanians		Serbs		Others	
	""Dissatisfied" and "not satisfied at all"	"Satisfied" and "very satisfied"	""Dissatisfied" and "not satisfied at all"	"Satisfied" and "very satisfied"	""Dissatisfied" and "not satisfied at all"	"Satisfied" and "very satisfied"
CIVPOL	21.5	78.5	77.0	23.0	10.0	90.0
KPS	4.5	95.5	90.7	9.3	9.4	90.6
Courts	55.5	44.5	89.8	10.2	38.1	69.9
Prosecutor offices	46.9	53.1	97.0	3.0	36.0	64.0
KFOR	8.3	91.7	72.6	27.4	12.6	87.4
KPC	3.7	96.3	100.0	0.0	8.6	91.4

Source: Opinion poll, November 2002.

Our latest opinion poll shows that respondents are now more satisfied with the work of both the international (CIVPOL) and the local police (KPS) than they used to be⁶⁰ (see Table 4.3, and Table A.3 in the annex). This increase in trust can be explained by the fact that lately there has been a decrease in the number of serious crimes. However, perceptions regarding the work of investigative bodies still differ greatly depending on the ethnic background of respondents. Thus, in comparison

⁵⁹ The explosions in Klllokot happened just before Mr. Steiner's address to the Security Council of United Nations in New York, those in the Municipality of Istog before Mr. Kofi Annan's visit to Kosovo, while the explosion of the car bomb in Prishtina happened before the arrival of a delegation of the Security Council of United Nations to Kosovo.

⁶⁰ Early Warning Report #1, May-September, 2002.

to the Albanian respondents, the Serb respondents declare themselves to be much more dissatisfied: 77% stated that they are “dissatisfied” and “very dissatisfied” with the work of the CIVPOL, whereas 95.5% felt the same about the KPS (Table 4.3). Other minorities’ perceptions are similar to those of the Albanians. It should be mentioned that the CIVPOL and the KPS did not exercise their functions in most of the areas where the Serb minority lives. As a result, the dissatisfaction of the Serbs with the work of these bodies cannot be considered to be very objective. For instance, Serb respondents are more satisfied with KFOR activities than they are with the activities of the investigative bodies (see Table 4.3), because KFOR is more present in the parts where Serbs live.

The activities of the judicial bodies (courts and prosecutors offices) and their level of efficiency are less known to the public. The work of these bodies is rarely publicized. This is also apparent in our opinion poll in, which 33.1% of respondents did not answer the questions related to the work of the judiciary or stated that they were not aware of its work (see Table A.3 in the annex). On the other hand, our latest opinion poll, just like the one conducted in July 2002, shows that respondents are less satisfied with the work of the courts and the prosecutors’ offices than with the work of other bodies dealing with personal and public security. Thus, 55.5% of Albanian respondents, 89.9% of Serb ones and 38.1 % of other respondents are “dissatisfied” and “not satisfied at all” with the work of the courts (Table 4.3). There are still a huge number of crimes whose perpetrators did not receive the deserved punishment. In order to increase the feeling of security it is necessary for the judicial bodies to be more efficient in their work and also to publicize what they do.

(ii) Illegal carrying of weapons. Despite the growing KFOR and police activities in prosecuting and preventing the illegal carrying of weapons, this remains a widespread phenomenon in Kosovo and it impacts on the feeling of security of citizens. Our opinion poll shows that 24.2% of Albanian respondents, 10.4% of Serbs and 18.8% of other respondents know at least one person who illegally owns or carries a weapon. In the past 12 months, KFOR troops seized 2,118 illegal weapons⁶¹, whereas during 2001 and the first six months of 2000, 624 persons were tried in criminal proceedings because of the illegal carrying of weapons⁶². This data confirms the high level of illegal possession of weapons among the population in Kosovo.

(iii) Lack of cooperation between citizens and the police. In Kosovo there is still a lack of proper cooperation by citizens with the police, which makes fighting and preventing crime a lot more difficult. Out of those who responded to our opinion poll, 12.9% of Albanians, 8% of Serbs and 14.2% of others never reported a case to the police even though they were victims of crimes or violence. This data speaks volumes. There is a need to intensify the campaign to encourage citizens to cooperate with the police, especially with the international police, since the trust of citizens in the international police is lower than their trust in local police (see Table 4.3).

(iv) Organized crime. The respondents to our opinion poll consider organized crime to be another huge problem for Kosovo. Albanian respondents list organized crime together with corruption as 6th in a list of 16 major problems for Kosovo today. Serb respondents and respondents of other minorities rank it as the 7th

⁶¹ Daily newspaper “Koha ditore”, 24 December, 2002.

⁶² Rexhep Haxhimusa, ‘The Forms of Organized Crime in Kosovo’, a seminar with judges and prosecutors held on 5 September, 2002 in the Kosovo Judicial Institute in Pristina, pp. 9-10.

biggest problem (see table A.1 in the annex). This also incites the feeling of insecurity among the population.

International and local officials agree that organized crime is a widespread phenomenon in Kosovo. Some forms of organized crime have been fought against successfully, and some others less so. Data presented by the President of the Supreme Court of Kosovo in September 2002⁶³, for 2001 and the first six months of 2002 showed that the district courts began criminal proceedings for the criminal offence of “unauthorized production and sale of narcotic drugs” against 115 persons, while 56 persons were charged with having committed the criminal offence of “trafficking human beings”. This data presents encouraging signs that the beginning of the harsh fight against organized crime has started. But many other phenomena, such as cigarette, oil and arms smuggling and trafficking, are not being addressed to a satisfactory level. In the circumstances of high unemployment and poverty currently reigning in Kosovo, the jobless and the poor can very easily be attracted to the activities of organized crime. Despite the damage caused to the economy, the effects of not fighting organized crime can affect Kosovan society itself. This is why more commitment is required at a national level⁶⁴. In addition, more professional training of respective bodies and services in the fight against organized crime is required.

Corruption

45. Respondents to our opinion poll think that corruption is a widespread phenomenon in many Kosovo institutions. The results of our opinion poll are given in Tables A.10-A.12 in the annex. Respondents of all ethnicities think that corruption is a very widespread phenomenon in the customs services, local administration, the courts, health services and international organizations⁶⁵, and is less present in the police and the educational system. 55.3% of Albanian respondents state that corruption is “quite present” or “very much present” in the courts, 78.9% in the customs services, 36.0% in the UNMIK police and 8.2% in the local police. The corresponding opinions of Serb respondents differ somewhat from those of the Albanian ones: 78.6% of Serb respondents state that corruption is “quite present” or “very much present” in the courts, 89.5% state that for the customs, 51.0% for the UNMIK police and 73.2% for the local police.

46. Such perceptions on corruption in the very institutions that should be fighting corruption and organized crime serves as a clear indicator that many things should change in relation to how these institutions conduct themselves. This is all the more so since a significant amount of respondents stated that their perceptions were based on their own experiences (23.8% of Albanian respondents, 34.6% of Serb respondents and 14.4% of respondents from other communities). It should be mentioned that in addition to low wages and the lack of law enforcement, respondents feel that the lack of institutional mechanisms of control is another contributing factor to such corruption. This is the opinion of 24% of Albanian respondents, 14.5% of Serb respondents and 18.2% of respondents from other communities.

⁶³ Ibid

⁶⁴ Fear of being punished and becoming a victim, citizens' feeling of insecurity and the lack of trust in the police in seeking protection from the revenge of criminal gangs if they were to testify against them are also factors that contribute to the increase in organized crime in Kosovo.

⁶⁵ The perception that there is corruption in international organizations must have been created by the corruption scandal in KEK (see Early Warning Report #1, May-August 2002).

47. According to our opinion poll, a part of the responsibility for corruption and organized crime falls upon citizens themselves. 18.8% of Albanian respondents, 27% of Serb respondents and 6% of respondents from other communities stated that if a public official would require a bribe in order to provide a service, then they would be willing to pay the bribe without reporting the case. It is therefore important that investigative bodies create a climate of trust with citizens and encourage them to denounce cases of corruption.

Criminal legislation

48. In the current circumstances, where the Assembly of Kosovo has managed to adopt a small number of laws, the laws that are applied are mostly those defined by UNMIK Regulation no. 24/1999, according to which the applicable laws in Kosovo are "UNMIK regulations and the laws applied in Kosovo until 22 March 1989". The criminal legislation is a branch of legislation that was not dealt with by the Assembly of Kosovo⁶⁶. This means that the Criminal Code and the Criminal Procedure Code that are currently applied are the ones that were applied before March 1989, i.e. the codes according to which Albanians were persecuted during and before the 1999 conflict.

49. This lack of Kosovan ownership of criminal legislation and the application of laws that are considered unacceptable not only by the public, but by the bodies that apply them and especially by the accused parties, means that sentences pronounced under these laws are regarded only as a punishment. Such laws thus lack their preventive and educational role. It is important that during the criminal proceedings and deliberation of the verdict the individual sentenced understands and feels the application of the law as a social necessity, as something essential for the protection of individual and common values, and not only as a mere punishment for the committed act. The application of laws issued before March 1989 will, apart from political implications, have negative consequences for the judicial practice. Members of the Albanian population still feel that their lives are being regulated by the previous Serb laws, which they remember as discriminatory. Further implementation of these laws does not create the moral feeling of respect for those laws⁶⁷. Any delay in issuing the Criminal Code and the Criminal Procedure Code may cause more disagreement and dissatisfaction than is currently visible⁶⁸. It may also happen that Kosovan Albanian judges and prosecutors will submit to pressure from the public and refuse to work with the laws of former Yugoslavia, on the basis that they fail to reach democratic standards.

⁶⁶ Drafting of these laws began as early as December 1999 and the Assembly of Kosovo should have adopted the laws in October 2002. However, they are still awaiting adoption.

⁶⁷ Not only are the respective Serb and Yugoslav laws applied in Kosovo outdated but they also fail to fulfill many democratic standards and there are cases when parties to court proceedings appeal against court decisions based on these grounds.

⁶⁸ When in December 2002 sentences for the so-called "Dukagjini Group" were pronounced, those convicted and their families stated that the sentences are based on laws that they see as unacceptable.

ANNEX 1. Selected results of the opinion poll

Note. The opinion poll for this Report was conducted in November, 2002, by the “Rinvest” polling team. The part of the opinion poll conducted in the Serb enclaves was carried out by “Prism Research” agency (Sarajevo, Bosnia and Herzegovina).

The survey was based on face-to-face interviews, and included 1,315 respondents: 937 Albanians, 194 Serbs, and 184 respondents from other minorities (Turks, Goranis, and Romas – Ashkalis and Egyptians). In order to increase the reliability of opinions of the minority groups, the number of respondents belonging to minorities was chosen to be higher than their percentage participation in the entire population of Kosovo.

The sample was stratified on the basis of geographic regions (7 regions – about 30% living in the Pristina region; percentage distribution in the other Kosovo regions is made according to appropriate percentages before the conflict), and urban to rural population ratio (1:1). The target population was over 18 years of age.

Table A.1. Opinions on the biggest problems faced by Kosovo* (%)			
	Albanians	Serbs	Others
Infrastructure (roads)	3.8	0.8	3.0
Power supply	16.3 (3)	2.9	21.3 (2)
Urban problems (wild building)	0.9	1.3	0.6
Environment	1.1	1.1	0.0
Poverty	11.2 (4)	7.9	15.9 (3)
Prices	2.7	3.2	2.5
Healthcare services	0.7	0.8	0.8
Public and personal security	1.6	15.0 (3)	2.5
Education	1.1	0.0	0.6
Interethnic relations	0.6	16.9 (1)	3.9 (5)
Unemployment	21.8 (1)	13.7 (4)	28.7 (1)
Uncertainty about the final status of Kosovo	20.4 (2)	16.4 (2)	10.9 (4)
Social problems	2.4	0.8	3.0
The fate of the missing	8.0 (5)	10.5 (5)	2.5
Organized crime and corruption	6.3	6.9	2.8
Unsocial phenomena (prostitution, drugs)	1.2	1.6	1.1
Something else	0.2	0.6	0.3
Total	100	100	100
* - Ranking of five biggest problems for each ethnic group is given in parenthesis			

Table A.2. Opinions on current political trends in Kosovo (%)

	July 2002			November 2002		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Not satisfied at all	13.3	61.5	7.1	9.3	35.1	9.2
Dissatisfied	35.9	20	36.1	18.0	42.3	13.6
Neither satisfied nor dissatisfied	33.2	11.8	19.5	35.4	14.4	20.1
Satisfied	10.2	4.6	22.5	28.7	4.6	38.0
Very satisfied	3.7	0.5	9.5	3.2	0.5	7.6
DK/NA	3.6	1.5	5.3	5.3	3.1	11.4
Total	100	100	100	100	100	100

Table A.3. Opinions on the work of Kosovo's institutions* (%)

	DK/NA	Not satisfied at all	Dissatisfied	Satisfied	Very satisfied	Total
UNMIK	9.3	7.8	24.9	53.3	4.5	100
Parliament	5.2	5.8	15.8	59.5	13.6	100
SRSG	7.9	4.6	20.1	57.0	10.3	100
Courts	33.1	11.8	26.5	26.4	2.2	100
Government	6.4	5.9	18.6	56.9	12.2	100
KFOR	8.2	4.1	7.5	56.6	23.6	100
CIVPOL	4.9	5.3	17.8	59.1	12.8	100
KPS	2.5	4.6	4.9	45.7	42.4	100

* - The data has been weighed based on the percentage of community participation in the overall population of Kosovo (88% Albanians, 6% Serbs and 6% other communities)

Table A.4. Perceptions of respondents on the current economic situation of their families (%)

	Albanians	Serbs	Others	Total*
Not satisfied at all	7.5	22.7	13.6	8.8
Dissatisfied	22.7	27.8	34.2	23.7
Neither satisfied nor dissatisfied	27.2	22.7	28.3	27.0
Satisfied	35.4	25.8	22.8	34.1
Very satisfied	5.9	0.0	1.1	5.3
DK/NA	1.2	1.0	0.0	1.1
Total	100	100	100	100

* - The data has been weighed based on the percentage of community participation in the overall population of Kosovo (88% Albanians, 6% Serbs and 6% other communities)

Table A.5. Opinions on factors that could pose a threat to the stability in Kosovo (%)

Options	Albanians	Serbs	Others
Further deterioration of interethnic relations	22.4	80.6	44.6
Current social problems	19.3	34.2	22.3
Deterioration of relations with neighboring countries	4.7	0.0	2.7
Deterioration of relations with the international community	30.7	4.3	17.9
Serious confrontations between political parties	22.2	4.6	12.5
Something else	0.7	1.1	0.0
Total	100	100	100

Table A.6. Opinions factors influencing interethnic relations to be tense (%)

Options	Albanians	Serbs	Others
Current efforts of Albanians for integration of Serbs are not sufficient	4.9	45.6	10.5
Serbs lack the willingness to integrate into Kosovan society	35.0	1.2	30.5
Attitudes of Albanian leaders	3.0	46.2	2.9
Attitudes of Kosovan Serb leaders	13.1	4.7	20
Influence of Belgrade	41.4	0.6	32.4
Something else	2.7	1.8	3.8
Total	100	100	100

Table A.7. Opinions of respondents on the possibilities of the return of refugees (%)

Options	July 2002		November 2002	
	Albanians	Serbs	Albanians	Serbs
I agree that refugees should return to their properties	40.8	91.8	35.4	73.7
I agree that they should return to new settlements	3.5	0.5	2.9	13.4
I do not agree with their return at all	30.4	2.1	28.4	3.1
Does not concern me (there are no refugees in my neighborhood)	15.1	2.1	27.4	7.2
DK/NA	10.1	3.6	5.9	2.6
Total	100	100	100	100

Table A.8. Opinions on safety from crimes and violence when respondents are home alone and when outdoors (%)

	Home alone			Outdoors		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Very safe	37.7	13.0	39.3	22.6	5.7	21.4
Safe	35.8	45.0	42.1	36.7	35.1	50.0
Not too safe	15.9	31.6	13.1	24.4	37.1	20.3
Not safe at all	10.6	10.4	5.5	16.3	22.2	8.2
Total	100	100	100	100	100	100

Table A.9. Opinions on the presence of corruption in the courts and international organizations (%)

	The courts			International organizations		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Not present at all	12.0	5.7	6.7	15.5	12.3	7.9
Not too much present	32.6	15.6	48	19.4	25.5	25.8
Quite present	39.2	31.1	34.7	28.5	25.5	41.6
Very much present	16.1	47.5	10.7	36.6	36.8	24.7
Total	100	100	100	100	100	100

Table A.10. Opinions on the presence of corruption in the healthcare and education systems (%)

	Healthcare			Education		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Not present at all	17.0	14.1	9.7	25.5	12.2	14.8
Not too much present	27.0	24.2	45.2	35.4	29.3	50.6
Quite present	28.1	30.9	32.3	22.3	35.4	24.7
Very much present	28.0	30.9	12.9	16.8	23.1	9.9
Total	100	100	100	100	100	100

Table A.11. Opinions on the presence of corruption in the customs and in local administration (%)

	The customs			Local administration		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Not present at all	2.2	5.3	0.0	13.3	4.0	14.9
Not too much present	18.8	5.3	15.5	30.6	27.0	52.1
Quite present	41.4	40.6	44.7	37.2	31.7	25.5
Very much present	37.5	48.9	39.8	18.9	37.3	7.4
Total	100	100	100	100	100	100

Table A.12. Opinions on the presence of corruption in the UNMIK police and the local police (%)

	The UNMIK police			The local police		
	Albanians	Serbs	Others	Albanians	Serbs	Others
Not present at all	34.0	19.2	29.8	72.7	4.6	61.2
Not too much present	32.0	29.8	46.4	19.1	22.2	29.4
Quite present	25.6	21.2	19.0	6.0	31.5	9.4
Very much present	8.4	29.8	4.8	2.2	41.7	0.0
Total	100	100	100	100	100	100

**ANNEX 2. Events during
the September-December
2002 period****September**

- **19 September** – A thorough investigation conducted by 17 UNMIK personnel concluded that Serbian media reports that a mass grave in Rahovec/Orahovac may contain Kosovan Serbs killed after June 1999 were completely unfounded.
- **20 September** – The SRSG, Michael Steiner, signed two important Administrative Directions, “On Disconnection of Electricity Service” and “On Payment of Electricity Depts”.
- **24 September** – UNMIK Police arrested two senior public officials from the Pristina Municipality Department for Cadastre and Geodesy and Property on suspicion of corruption.

October

- **1 October** – The SRSG, Michael Steiner, delivered a major policy speech in Mitrovica in which he laid out a seven-point plan to improve living conditions of the city.
- **3 October** – The Kosovo Trust Agency announced that it is ready to move its headquarters to northern Mitrovica.
- **9 October** – Serb community leader Milan Ivanovic, who was charged with leading a violent demonstration, handed himself to an UNMIK court in North Mitrovica.
- **21 October** – The SRSG announced that he would invite the leaders of the major Kosovo political parties and coalitions participating in municipal elections to a Decentralization Meeting on 1 November in Gjilan/Gnjilane.
- **26 October** – Elections for seats in Kosovo’s 30 Municipal Assemblies were held throughout the territory of Kosovo.
- **27 October** – Ukë Bytyçi, the president of Suva Reka municipality, and two of his associates were shot dead in Leshane village.

November

- **5 November** – SRSG Michael Steiner, accompanied by Prime Minister Bajram Rexhepi and the Ministerial Coordinator for Returns Milorad Todorovic, addressed a donors' meeting in Brussels during which he underlined a strong and successful partnership between the UN, the OSCE, EU and KFOR.
- **7 November** – SRSG Michael Steiner annulled a resolution passed by the Kosovo Assembly, which declared as “unacceptable and null” the draft preamble of the Constitutional Charter of Serbia-Montenegro regarding Kosovo.
- **18 November** – UN Secretary General Kofi Annan arrived in Pristina for a two-day visit in order to demonstrate the support of the international community for UNMIK's efforts in Kosovo.
- **25 November** – UNMIK Administration – Mitrovica was set up in northern Mitrovica in the premises formerly occupied by the parallel administration.
- **29 November** – DSRSG Andy Bearpark opened the headquarters of the KTA advance team in Northern Mitrovica.

December

- **6 December** – SRSG Michael Steiner visited the Kosovo B2 plant, whose turbine has started up for testing following extensive repairs.
- **13 December** – A car-bomb exploded in a busy street in Pristina, wounding 32 people and causing considerable damage.
- **14 December** – A team from the United Nations Security Council arrived in Pristina for four-day visit in order to meet with senior officials of UNMIK and with local political and civil society leaders.

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